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W62DEPARTMENT OF AGRICULTURE
RURAL ELECTRIFICATION ADMINISTRATION

"WHY REA BUILDS LINES"

by
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It would present nothing remarkable, as things go nowadays if the United States Government were to subsidize, or partly to subsidize the building of farm electric lines, in thinner areas, as a form of public work, undertaken for the general good. WPA and PWA bear all or part of the costs of their projects.

But REA does not make even partial grants or subsidies. It makes loans for building electric power lines in rural areas, and the loan contract calls for the full repayment of the money advanced, and out of the expected revenues of operation. This clearly indicates that the building of REA electric lines, and the operation of REA electric lines is a business enterprise pure and simple, a part of the established business of the electric power industry.

Neither would it be altogether remarkable if the government through REA were to go into the power business, in competition with established industry, for "yardstick purposes", for it is already doing so in the Tennessee Valley and elsewhere, within certain established limits.

But what is remarkable about REA is that, although a business, it is not in competition with any established industry. Our basic act, (and our carefully preserved policy) requires us to build only to serve "persons in rural areas not now receiving central station service." We take only what the power companies are not now serving; and the experience of nearly all of the farmers now benefitted by the REA lines is that the government financed lines brought them electricity only after the power companies had for twenty years or more refused to extend service to them, on terms they could meet, at least, if at all. The Government, then, is in this rural electric business not in competition with business, but nevertheless, operates solely as a business.

There seems to be an inconsistency here, and power companies who oppose the program, not because they have been hurt by competition, but for other reasons quite understandable, have been quick to point out the inconsistency. We are often reminded that if "bungling, incompetent political minded" government officials can make this business pay as a business, then of a certainty the established private industry could. And if it can, why doesn't it? When has American business needed any one to point out or even demonstrate to it the fields in which it could make money?

Well, I might even take up that general question and give business some argument on it. But holding our discussion strictly to the question of why REA should build electric lines, where industry has declined to go, and should still expect to get its money back, I have a very simple and convincing answer.

The power industry isn't organized rightly, to serve rural areas. It

got off on the wrong start, and cannot go back without efforts and effects so violent that it will never make the attempt by itself.

The power industry was organized simply for profits without restraint by or awareness of the public interest. It served, first, the centers of population. It charged for service all the traffic would bear. It found that this paid huge profits. It therefore recapitalized its so-called investment on the basis of normal earnings of capital, the insiders taking as unearned profits, the great write-up of capital. Some experts have estimated this stock watering process as something like 5 or 6 billions of dollars. The point to note is that the insiders could get these profits only by reselling the stock to the general public. So the widows and orphans, the educational institutions and the insurance companies now own this watered stock. It is important to many innocent investors that the earnings on this stock should be maintained. They can be maintained only by continuing to charge the present users of current in the cities more than actual cost of service would require.

But farm people in the thinner territory can be served, if at all, only on the basis of minimum cost. Therefore, if rural America is to be served, one of two things must happen. Either all of America must be served at minimum cost, or simply the rural areas. By the first alternative, many investors would be ruined by a violent reorganization of the power industry, if it could be brought about.

By the second alternative, which we are taking, the established business is left to slower processes of evolution and improvement, while the Government itself, through REA, establishes a new business on a cost basis purely, to serve rural areas.

So REA lends the capital, the farmers run the business, and gradually acquire ownership of their own lines.

Meanwhile the farmer at last gets needed service, and the investors in city power lines are not hurt.

As a citizen, of course, with most of my interests in the city, I am not indifferent to the need of bringing cheaper power to city folks. The power industry is in for a clean-up, in course of time, despite the widows and orphans. But it should be approached deliberately, perhaps even gradually. At any rate, it probably will be gradual, deliberate, perhaps even slow; and the point about this that warrants the existence of the Federal agency is that it is not fair nor even necessary to make the farmers wait until the city folks have reformed the power industry. It is possible and right to go at the farmer's problem directly, on the basis of a fresh beginning, that is to say, a new business set-up based on true costs of construction and operation, and aimed at rigid economy by new engineering. You can't ask the existing power companies to give us this new set-up, and exhibit one type of engineering, one set of costs, one rate structure, for the cities, based upon getting all the traffic will bear, and a still different, rigidly economical type of engineering, cost, and rate structure based simply upon what the farmer can afford to pay. It isn't in human nature to expect the power companies to do it, because they know that it wouldn't be in human nature to expect the city people to stand for it. The only practicable course is for the Government to do it, while the power companies put up at least a show of protest, scream subsidy, predict failure, and secretly adjust themselves to it.

There is a strong probability, of course, that the building up a new

utility industry for farmers may have a reflex benefit for customers of the present industry in the cities and suburban areas. REA may very easily be building up new influences which will have their effects upon legislatures regulatory bodies, and, so, upon the present power industry. But whether this is true or not, it has already proved that it can help the farmer get electricity at costs which he can meet.

From this point of view it was fortunate that only ten percent of America's farms were electrified in 1935 when REA began. We had a virgin field. We could not only make a fresh start, but we had fewer established conditions to correct. We had a chance to build up a wholly new psychology.

The psychology of electrification so far has been wrong. It has been based upon the idea that electricity, light and power brought over wires is a luxury; something new and "modern" added to the comforts of those who could afford it. It has been developed as an industry only about forty years. I remember reading that Edison himself had to put on a street parade exhibiting on a "float" his new incandescent lamp bulbs, to show a scoffing and skeptical New York multitude that it wasn't too deadly a thing to handle. And I remember that the great Governor LaFollette, who always thought first of the public interest, was so badly advised with regard to electrification that he gave away the entire State of Wisconsin, rural as well as urban, in perpetual franchises to a few private power companies, in order to induce them to make this new "luxury" available to his people.

Yet now we realize that electric service is not a luxury but a necessity. We know also, that, in any realistic sense, the power companies do not provide the people with electricity. For the people already own electricity. Through franchises, through benevolent "regulation" and through control of capital investment, the power companies merely guarantee for themselves that the people cannot secure the benefits of electricity without paying tribute.

Electricity is really provided by nature itself. It is a natural product of those very rural areas which have so long been deprived of its benefit. Those "little waters" that trickle out of every pasture and run down every hill-side create a force that is easily transformed into electricity. A small but steady rill can turn a water wheel; many small rills overflow ditches, accumulating behind a flood control dam, build up a potential force that can be transformed into electricity to turn even these waters back to the land in a helpful way, through irrigation, or home plumbing service.

Electricity, indeed, is not even new. It has always been there for man to use as soon as he knew how. The radiant ether waves, now trained to give us radio, have always been ready to give us music and speech, through the air, as soon as man had the vision and technique to use them. These astonishing new things are old, even eternal, only man's discovery of them is new.

And it is man's choice merely that he so brings them into use that the few will profit from them, and the many may even be deprived of them. Thank your stars, then, that the tribute takers in the electric power industry left the rural areas undeveloped until, with Government help, the farmers themselves could build their own industry, based upon the conception that electricity is created on their own lands, by nature, and belongs as a necessity to all the people.

It has been the care of REA to conform its work to this concept. We are setting up a new industry. REA through its mortgages on the lines built really

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owns this new industry at the beginning. But as the loans are paid back, month by month, in electric bills paid by consumers, the Government's share of ownership becomes less and less, while the borrower in equal measure acquires ownership, and with it, control of rates and service.

We might easily have so set up our borrowers that in course of time it would have been private individuals who gradually acquired this ownership and this control of rates and service. Indeed, because of legal impediments in certain states to any common form of ownership by farmers, we did in some areas set up private borrowers in business. Fortunately, laws have been improved in most states, so that, almost universally, these private corporations have been reorganized as cooperatives.

This question was of special significance to Texas. When our first loans were under consideration, our Legal Department regretfully concluded that the existing cooperative laws were not adequate because the benefits were limited to certain agricultural groups and activities which they felt did not cover electrical distribution. The Secretary of State was willing to incorporate REA cooperatives under the existing law and the Attorney General's office gave a somewhat equivocal opinion that they could be legally incorporated. It was obvious, however, that if the legal status could be effectively attacked after we had made a loan to them, the value of our security would be greatly impaired.

Accordingly, as I discovered when I first was given responsibility for recommending REA loans, we had five million dollars worth of projects in Texas on the point of being approved,--loans which had been organized as private business corporations. Although an attempt had been made to give them the character of non-profit corporations, there was no way of assuring that those who had legal control of them could not and would not operate them solely for their own benefit. Upon my representation that we were using money collected by taxation to set up in business private individuals who would put up no more than a hundred dollars incorporation expenses, I had no difficulty in persuading the Administrator to hold up these loans, until I could look into the possibility of a new cooperative law.

My first visit to Texas for this purpose was not wholly promising, because everyone asserted that the private utilities companies had a dominating influence in Texas politics. So far as obtaining a cooperative law was concerned, at least, this report proved to be erroneous. With the enthusiastic effort of the Texas leaders themselves, such as agricultural officials, and including Mr. C. E. Morrison, an engineer to whom some of the proposed private loans would have been made, we had no real difficulty in getting a new cooperative act permitting the setting up of REA cooperatives, and all of the proposed projects were reorganized as cooperatives. To date, we have made more than twelve million dollars worth of loans to the Lone Star State upon the cooperative basis.

Under the new law, the people who pay the Government back its loan will, in proportion to their payments, acquire ownership. This means of course the farm consumers. But as a broader social matter, it is important not only that these farm consumers should own the lines, but that they should not be permitted to sell themselves out to private enterprise.

The cooperative adapted to the business of electrical distribution has certain distinct features which are all consistent with the idea of electricity as a universal public necessity:

1. It gives equal ownership to users of the service.
2. It requires and preserves equal voice in the government of the business of providing adequate, economical, constant service.
3. It divides benefits, apportions costs, and makes refunds in proportion to patronage.
4. Most important, it owns itself, and cannot be sold out by those giving up service and moving away, to the detriment of those who come after.

So REA has set no individuals up in business. All of its new borrowers are either cooperatives, or the moral equivalents, such as public utilities districts.

Of course the farmers themselves have not always been wise enough to demand cooperatives. They want "the lights" and are willing to pay for them, whether to a cooperative or a private company. At least a half of the members of our cooperatives have had no experience with and no sense of the privilege, dignity and security of being cooperators. They come in, and have to be taken in as members before they learn what it means. We cannot wait till they learn the meaning of cooperation, and they cannot merely come in as customers. The nature of this electrical utility business is such that it has to begin full-grown for a whole area. You cannot begin with a dozen consumers and pick up new ones here and there over the county, as a cooperative store can do. You have to start with an area large enough to be an economical operating unit--usually at least one hundred miles. You have exclusive use of that area. You have to take everybody in who lives in that area--you cannot both have a monopoly and the privilege of refusing service to people who don't agree with you.

So people must first become members of an REA cooperative and then learn to become cooperators. This gives us, in addition to all of our other duties, the obligation to educate each other in the meaning of cooperation. This compels us to build our cooperatives the hard way--from the top down, but we cannot dodge the task. It is as much a part of REA construction as engineering. It is a part of the job of giving electric service to the farmers, on an equal basis, and on a basis which will keep our job equitable.

REA builds lines, in short, because only an agency representing all of the people can take full advantage of the opportunity to start fresh in the rural areas, and establish the principle that electric service, the gift of nature, should be universal in use and benefit.

QUESTIONS AND ANSWERS

1. Do REA cooperatives follow Rochdale principles of cooperation?

Answer: REA cooperatives are founded on Rochdale principles but exhibit two or three necessary departures. The business success of Rochdale cooperatives in England was founded upon the principle of selling "at the market". That is to say, in a competitive field they avoided price wars by selling at the prevailing retail prices, knowing that the difference could be returned to the members in dividends. This principle had the further advantage of assuring against selling below cost because they did not have to distribute dividends until after all known costs, including overhead, deterioration of goods and values, and the setting aside of

necessary reserves, had been calculated. REA cooperatives do not sell "at the market" if they can possibly reduce their rates below it. They are in no danger of price wars, because they are in a monopolistic field and once consumers are hooked up there is no way by which they can take their trade elsewhere under the lure of cut prices. It is an advantage, however, if possible to sell below the rates of nearby utilities, because only by this "yardstick" method can REA cooperatives do anything to benefit those farmers that are already receiving central station service. Furthermore, a return of dividends at the end of a year does not greatly benefit a farmer who has had to pay too much for his electricity at a time when cash was hard to find. Rates that are higher than are necessary tend to discourage the high utilization which we are trying by every means to promote. Therefore, if it is possible to reduce rates, we will encourage projects to do so. Nor do we have to fear selling below cost, because it is not so easy to do this in an electrical distribution business as in a retail store handling many items. In the latter business, current costs are never known in time to set prices in accordance with them. In our business, the cost which includes certain reserves can be pretty accurately calculated in advance.

2. Does the REA finance the purchase of appliances?

Answer: The Electric Home and Farm Authority has been set up to finance appliances and has been doing so effectively for a long time. REA has the legal authority also to finance appliances, but we do not duplicate the work of another Government agency, particularly one which was on the job ahead of us. We do finance plumbing installations, wiring loans, and assist in the setting up of refrigerator cooperatives, and we are now giving help on irrigation, because EH & FA does not cover these fields.

3. Does REA permit its projects to sell appliances on the cooperative basis?

Answer: Except in rare cases where there is no other way to get appliances sold, we do not permit our cooperatives to engage in the appliance selling business upon any basis whatever. In the first place, this mercantile business is more hazardous than the electric distribution business and we do not feel that we have either the legal right or the business justification either to make loans to set up mercantile businesses or to permit our borrowers to endanger our loans by doing so on their own account. It might also be argued that there is less justification from the point of view of Government policy. We serve electricity only to those areas which have not been able to get it, and are therefore not subsidizing competition with existing business. But in general, there is no shortage of existing business in the sale of appliances. To some extent we even discourage our cooperative members from setting up a new cooperative for the sale of appliances--one which would not commingle its funds with REA income. We feel that if such a cooperative has the same directors as REA, they may divide their interest to the detriment of REA. However, we stoutly defend their right, as a legal matter apart from Government policy, to set up their own cooperatives for this or any other merchandise effort.

4. Is REA doing anything to promote lower costs of manufacture of appliances?

Answer: This is a very good question, and I am happy to say that we are collaborating in every way possible with the Extension Service and with manufacturers in getting lower cost of farm appliances, such as feed grinders, etc. We have already made progress in cutting down the cost of meters and transformers. We have secured great reductions in the cost of brooders, house lighting fixtures, and plumbing supplies. We are relatively new at this activity, but it is one that

holds out great promise for the future.

5. Is REA getting help from the Extension Service, County Agents etc?

Answer: We are getting great help, and have from the start, from the Extension Service in promoting the use of electricity. Furthermore, nowadays, nearly every project that comes to us has been developed with the assistance of a County Agent. I do not hesitate to say that at the beginning this help was not always forthcoming and that in some instances, we met with opposition, especially from agricultural engineers in land-grant colleges. Most of these men had been engaged under the auspices of the "Committee on the Relation of Electricity of Agriculture"--known as the CREA. The funds were usually supplied by private utilities corporations, and the salaries of many of the agricultural engineers were paid directly by the power companies. These men therefore were usually not inclined to engage in promotional activities of which the power companies disapproved. Therefore, they almost never said anything about high electric rates and they often actively opposed the formation of electric cooperatives. Sometimes this opposition extended to influencing the County Agents not to collaborate. In the early days, the County Agents sometimes on a state-wide basis seemed to have decided not to assist in the formation of REA cooperatives. I could mention names of persons on the Extension staffs of state colleges that are still opposing REA, oftentimes with skillful and underhand propaganda. It is not important to do so, however, because we are getting so much benefit from those who are helping, and so little real damage from those who are not, that it would be a mistake to imply that the Extension Service is not on the whole fully cooperative, and for the County Agents themselves, I have now only the warmest praise.

6. Are the REA cooperatives going to pay out?

Answer: We have not made any loans to cooperatives whose ultimate success we do not believe to be assured. In many cases, perhaps most, we took greater risks than a private power company would take on the same facts. We felt that as a Government agency, we had to introduce an element of faith based upon an assumption of improvement in the standard of living and the growth of the country, which the Government ought not only to believe in, but help bring about. Many of our cooperatives are paying out already. Some of them, we know, can only pay out as a result of either lower wholesale rates, lower operating costs, or greatly increased utilization, and we are applying ourselves constantly to secure these changes.

Furthermore, as we have gone on, we have been able to extend our projects to thinner territory as we have found means of lowering the cost of construction. Many of our Texas projects have been set up in territory that we could not have served at first, when we aimed at a construction cost of \$1000 per mile, and are feasible because they are now costing no more than \$600 per mile.

